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HAMMERMILL PAPER COMPANY

*Notice of Annual Meeting*

To Stockholders:

The Annual Meeting of Stockholders of Hammermill Paper Company will be held at the office of the Company, East Lake Road, Erie, Pennsylvania, on Tuesday, May 11, 1982 at 9:30 a.m. Eastern Daylight Saving Time to act upon the following matters:

1. Elect two directors to serve for a term of three years each; each to serve until his successor is elected and qualifies;
2. Transact such other business as may properly come before the meeting or any adjournment thereof.

Only holders of Common Stock and Second Cumulative Preferred Stock, Series A and B, of record at the close of business on March 23, 1982 will be entitled to notice of and to vote at the meeting.

HAMMERMILL PAPER COMPANY  
by R. J. Kilgore, *Secretary*

Erie, Pennsylvania  
April 2, 1982

**YOUR VOTE IS IMPORTANT**

**Whether or not you plan to attend the meeting in person, please sign and date the enclosed form of proxy and return it in the enclosed postage paid envelope.**

# HAMMERMILL PAPER COMPANY

*Executive Offices*

1540 East Lake Road, Erie, Pennsylvania 16533

## *Proxy Statement*

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Hammermill Paper Company of proxies to be voted at the annual meeting of the stockholders of the Company which has been scheduled for Tuesday, May 11, 1982, and any adjournment or adjournments thereof. The shares represented by each proxy received by the Company in the enclosed form will be voted as specified by the stockholder on the proxy. If no such specification is made, such shares will be voted for the election of the nominees named below as Directors of the Company. If one or more of such nominees should be unable or unwilling to serve as a Director for any reason, such shares will be voted for a substitute nominee as may be chosen by the Board of Directors. The Company is unaware of any reason why any of the nominees would be unwilling or unable to serve if elected. Any such proxy may be revoked at any time before its exercise by giving notice of revocation to the Secretary of the Company, by submitting a later-dated proxy or by voting in person at the meeting.

Only holders of the Company's Common Stock and Second Cumulative Preferred Stock Series A and B of record at the close of business on March 23, 1982 are entitled to notice of and to vote at the meeting. The holders of Second Cumulative Preferred and Common Stock are entitled to vote together and not as separate classes. On March 23, 1982 the Company had outstanding 575,904 shares of Second Cumulative Preferred Stock and 8,283,901 shares of Common Stock. In the election of Directors these shares have cumulative voting rights which means for each share held you may cast one vote for each Director to be elected, or cast all such votes for one Director, or distribute them as you may prefer. Unless otherwise specified on the proxy, a vote for the nominees named below will grant discretionary authority to cumulate votes in the judgment of the persons named as proxies. Each share is entitled to one vote on any other matter.

Following the original mailing of proxy soliciting material, executive and other employees of the Company may solicit proxies by mail, telephone, telegraph and personal interview. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries which are record holders of the Company's stock to forward proxy soliciting material and annual reports to the beneficial owners of such stock, and the Company may reimburse such record holders for their reasonable expenses incurred in such forwarding. The cost of soliciting proxies in the enclosed form will be borne by the Company.

It is expected that this proxy statement and the accompanying form of proxy will be mailed to stockholders on or about April 2, 1982. The Annual Report of the Company for the year 1981 has been mailed to stockholders.

## MATTERS TO BE VOTED AT THE ANNUAL MEETING

### 1. ELECTION OF DIRECTORS

Two Directors are to be elected for a term of three years each and until their successors are elected and qualify. Information regarding these nominees is set forth below.

| Name and<br>Principal Occupation   | Age | Director<br>Since | If Elected,<br>Term to<br>Expire in |
|--|-----|-------------------|-------------------------------------|
| Louis H. Roddis, Jr. ....<br>Consulting Engineer, 110 Broad Street, Charleston, S.C. 29401; a director of Gould, Inc. and Research-Cottrell, Inc.  | 63  | 1964              | 1985                                |
| Charles M. Williams .....<br>George Gund Professor of Commercial Banking, Graduate School of Business Administration, Harvard University, Cambridge, Mass. 02138; a director of Southern Natural Resources, Inc., U. S. Leasing International, Inc., San Francisco Real Estate Investors, Massachusetts Companies, Merrill Lynch Institutional Fund, Merrill Lynch Government Fund and Fort Dearborne Income Fund. | 64  | 1967              | 1985                                |

The terms as Directors of the following six persons will continue after the annual meeting and will expire in 1983 and 1984. Information regarding these Directors is set forth below. (1)

| Name and<br>Principal Occupation   | Age | Director<br>Since | If Elected,<br>Term to<br>Expire in |
|--|-----|-------------------|-------------------------------------|
| Henry Curtis .....<br>Chairman of the Board, American Business Products, Inc., Suite 500, 2690 Cumberland Parkway, Atlanta, Ga. 30039, a producer of printed business supplies; a director of American Business Products, Inc. and Consolidated Equities Corp.   | 63  | 1974              | 1983                                |
| Albert F. Duval .....<br>President and Chief Executive Officer of the Company, 1540 East Lake Road, Erie, Pa. 16533; a director of Milton Bradley Company, National Fuel Gas Company and Security Bank.  | 61  | 1962              | 1983                                |
| Bernard S. Kubale .....<br>Partner, Foley & Lardner, Attorneys-at-Law, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202; a director of George Banta Company, Inc., The Larsen Company, Mirro Corporation, Schultz Sav-O-Stores, Inc. and Wisconsin Finance Corporation. Foley & Lardner performs legal services for a division of the Company.(2) | 53  | 1969              | 1984                                |

| Name and<br>Principal Occupation  | Age | Director<br>Since | If Elected,<br>Term to<br>Expire in |
|---|-----|-------------------|-------------------------------------|
| William G. Kuhns<br>Chairman and Chief Executive Officer, General Public Utilities Corporation, 100 Interpace Parkway, Parsippany, N.J. 07054, an electric utility holding company; a director of General Public Utilities Corporation, Marine Midland Banks, Inc. and Home Life Insurance Company of New York. | 59  | 1975              | 1984                                |
| Donald S. Leslie, Jr.<br>Executive Vice President of the Company, 1540 East Lake Road, Erie, Pa. 16533, a director of Lord Corporation, The First National Bank of Pennsylvania and American Sterilizer Co.   | 56  | 1962              | 1984                                |
| Fred Herbolzheimer, Jr.<br>Senior Vice President of the Company and President, Thilmany Pulp & Paper Company, P.O. Box 600, Kaukauna, Wisconsin 54130, a division of the Company.   | 60  | 1974              | 1983                                |

- (1) Mr. Roger S. Ahlbrandt, a director of the Company since 1972, whose term ends this year, has reached retirement age as defined by Board policy. It is not presently intended to name another person to the Board.
- (2) \$52,835 in legal fees were paid by the Company to Foley & Lardner in 1981.

### Committees of the Board

The Board of Directors has standing Audit, Compensation, Executive and Nominating Committees. The Audit Committee reviews the scope of the annual audit and any material matters of accounting policy pertinent to current year's accounts and reviews the results of the audit, and the sufficiency of internal accounting and auditing controls. The members of the Audit Committee are Messrs. Roddis, Ahlbrandt and Curtis. The Audit Committee met 3 times during 1981. The Compensation Committee recommends to the Board of Directors the amount and form for all compensation of elected officers of the Company. It also acts as the Stock Option Committee. The members of the Compensation Committee are Messrs. Kuhns, Williams and Kubale. The Compensation Committee met 2 times during 1981. The Executive Committee exercises delegable powers of the Board of Directors of the Company between meetings of the Board. The members of the Executive Committee are Messrs. Duval, Ahlbrandt and Kubale. The Committee met 5 times during 1981. The Nominating Committee recommends candidates for election as directors to the Board. The members of the Committee, which met 2 times during the year, are Messrs. Kuhns, Williams and Kubale. Any shareholder may recommend nominees to the Nominating Committee

by writing to the Secretary of the Company. Submissions should include the full name and address of the proposed nominee and a statement of the candidate's qualifications.

### Meetings of the Board

Seven meetings of the full Board of Directors were held during 1981. Each Director attended all meetings of the Board, which he was eligible to attend, except Messrs. Ahlbrandt and Curtis each of whom missed one meeting.

### MANAGEMENT REMUNERATION

The following information is furnished as the remuneration attributable to 1981 and paid by the Company to each of the five most highly compensated executive officers or Directors of the Company whose total 1981 remuneration exceeded \$50,000 and all officers and Directors of the Company as a group.

| Name of individual or persons in group             | Capacities in which served   | Cash and cash-equivalent forms of remuneration |                    | Aggregate of contingent forms of remuneration (3) |
|--|--|--|--------------------|---|
|  |  | Salaries, Directors' fees, and bonuses (1)     | Other benefits (2) |   |
| Albert F. Duval                                    | Director, President and Chief Executive Officer  | \$ 314,496                                     | \$ 6,672           | \$12,089  |
| Fred Hierbolzheimer, Jr.                           | Director, Senior Vice President of the Company and President of Thilmany Pulp & Paper Company, a division of the Company | 160,924  | 4,671              | 5,979   |
| Donald S. Leslie, Jr.                              | Director and Executive Vice President  | 208,206  | 5,422              | 8,275   |
| James S. Stolley                                   | Senior Vice President  | 140,695  | 4,605              | 5,949   |
| Peter G. Volanakis                                 | Senior Vice President of the Company and President of Hammermill Papers Group, a division of the Company                 | 152,743  | 4,813              | 6,835   |
| All Officers and Directors as a group (10 persons) |  | 1,919,596                                      | 59,089             | 73,188  |

- (1) Includes, among other things, awards, under the Company's Executive Performance Plan, attributable to 1981 but paid in 1982, and fees for serving on the Board of Directors or on Committees of the Board. Directors who are not employed by the Company are paid an annual retainer of \$12,000 plus \$1,000 for each Board meeting and \$500 for each Committee meeting they attend. Directors who are employees of the Company are not compensated as Directors.
- (2) This column represents the cost of premiums paid by the Company on certain group life and medical health insurance.
- (3) Includes amounts contributed by the Company under the Hammermill Thrift Plan, a savings plan for eligible salaried employees, and amounts contributed by the Company under the Hammermill Stock Ownership Plan, commonly known as a "TRASOP". Refer to page 7 for a description of the Thrift Plan and the Stock Ownership Plan or TRASOP.

Each of Messrs. Duval, Herbolzheimer, Leslie, Stolley, Volanakis and R. J. Kilgore, Vice President, Secretary and General Counsel, has an agreement with the Company providing that, if a change of control of the Company occurs while he is an employee of the Company, his employment by the Company shall continue for at least three years at an annual rate of compensation equal to his total compensation for the 12 months preceding the change of control. These agreements were entered into in 1976. For purposes of these agreements, a change of control occurs either when more than 30% of the outstanding stock of the Company is acquired by any person, or persons acting in concert, in whole or in part by means of an offer to stockholders of the Company, or when any person, or persons acting in concert, succeeds in electing two or more directors in any one election in opposition to those proposed by the Board of Directors of the Company, or in certain other events.

## OTHER BENEFITS

### Executive Performance Plan

The Company has a discretionary Executive Performance Plan administered by the Compensation Committee of the Board of Directors which determines from time to time those employees eligible to receive awards under the Plan.

Plan awards, when given, are based upon level of individual performance as well as overall corporate performance and are computed on a percentage of annual salary. The corporate level of performance is measured against an annual profit budget reviewed and approved by the Board of Directors. Awards can range from 0 to 30% and are paid after the end of the plan year. Awards given attributable to 1980 but paid in 1981 are included, as to the Company's five most highly

compensated executives in column 1 of the table titled MANAGEMENT REMUNERATION at page 5 hereof.

### **Employee Stock Ownership Plan**

The Company maintains an employee stock ownership plan designed as a contributory TRASOP qualified under the Internal Revenue Code. The Plan which was established in 1976 for all eligible salaried employees of the Company provides those employees with an opportunity to share in the growth, prosperity and ownership of the Company. An annual contribution to the Plan equal to an investment tax credit of 1% of all expenditures on capital equipment is made by the Company. The contribution is allocated among participants based on salary. Effective January 1, 1980, the Plan was amended to allow employees to make voluntary contributions to the Plan up to an additional 1/2% investment tax credit, to be matched by an additional Company contribution. All Company and employee contributions are invested in Hammermill Common Stock and all dividends are reinvested in such stock. Distribution from the Plan is made upon a participant's retirement, termination or death.

### **Employee Savings Plan**

The Hammermill Thrift Plan is a savings plan for eligible salaried employees. Under the Plan, each participant may contribute through payroll deductions up to 12% of the amount by which his monthly salary exceeds \$400. Contributions by participants are invested by a Custodian in a Fixed Income Fund which provides guaranteed annual rates of return. For each dollar which a participant contributes to the Plan from the first 6% of his monthly salary over \$400, the Company contributes \$.75. Company contributions are invested in common stock of the Company. A participant's interest in the Company contributions is not vested until the end of the third Plan Year following the year in which contributions are made, except that when a participant becomes eligible for early retirement at his location (generally age 55 with 10 years of service) he becomes fully vested in all Company contributions.

### **Retirement Plan**

Nearly all permanent, full time, regular employees of the Company who are working on a salaried basis are eligible to participate in the Hammermill Salaried Employees' Restated Retirement Plan. The following table shows the estimated annual benefits payable upon retirement under such Plan, exclusive of Social Security benefits, to representative persons in the specified remuneration and years-of-service classifications. These estimated benefits have been calculated in accordance with the Plan's life annuity benefit, which provides retirement benefits for the participant's lifetime. Many optional forms of benefit, such as joint and survivor options, are available for selection by the participant at retirement. The calculation of estimated benefits assumes that

the persons in the specified classifications retired effective December 31, 1981, at age 65, having fully participated in the Plan throughout their careers. The actual benefits payable to any participant will depend on his years of service with the Company and his average annual remuneration during his last five of such years. Remuneration includes base salary, commissions and bonuses. The present years of service of Messrs. Duval, Herbolzheimer, Leslie, Stolley and Volanakis under the Plan are 21, 24, 25, 26, and 35, respectively.

| Average Annual Remuneration<br>For Last Five Years | Years of Service |           |           |           |
|--|------------------|-----------|-----------|-----------|
|  | 10               | 20        | 30        | 40        |
| \$ 50,000  | \$ 6,222         | \$ 12,444 | \$ 18,666 | \$ 25,740 |
| 100,000  | 13,722           | 27,444    | 41,166    | 55,740    |
| 200,000  | 28,722           | 57,444    | 86,166    | 115,740   |
| 300,000  | 43,722           | 87,444    | 131,166   | 175,740   |
| 400,000  | 58,722           | 117,444   | 176,166   | 235,740   |

### STOCK OPTION PLANS

The Company maintains a 1972 Stock Option Plan that will expire May 9, 1982. There are no further shares available for future grants under the 1972 Plan, but some options granted thereunder remain outstanding.

The Company also maintains a 1981 Stock Option Plan, approved by the Shareholders May 12, 1981, which provides for the discretionary grant of a Stock Appreciation Right (SAR) at the time and at the exercise price at which a related stock option is granted. The Stock Option Committee of the Board of Directors grants from time to time to eligible officers and key employees of the Company options to purchase common stock of the Company and related Stock Appreciation Rights.

The following table summarizes as to certain Directors and Officers and as to all Directors and Officers as a group information regarding options and Stock Appreciation Rights for the year ended January 3, 1982:



| Common Stock  | Albert F. Duval | Fred Herbolzheimer, Jr. | Donald S. Leslie, Jr. | James S. Stolley | Peter G. Volanakis | All Present Directors and officers as a group (19 persons) |
|---|-----------------|-------------------------|-----------------------|------------------|--------------------|--|
| <b>Granted—</b>   |                 |                         |                       |                  |                    |  |
| December 29, 1980 to January 3, 1982:                                 |                 |                         |                       |                  |                    |  |
| Number of options granted without stock appreciation rights           | 5,000           | 3,000                   | 4,000                 | 3,000            | 3,000              | 27,000   |
| Number of options granted with stock appreciation rights              | 6,000           | 2,000                   | 3,000                 | 2,000            | 2,000              | 31,000   |
| Average per share option price(1)                                     | \$32.00         | \$32.00                 | \$32.00               | \$32.00          | \$32.00            | \$32.00  |
| <b>Exercised—</b>   |                 |                         |                       |                  |                    |  |
| December 29, 1980 to January 3, 1982:                                 |                 |                         |                       |                  |                    |  |
| Net value realized in shares (market value less option price) or cash | \$234,905       | \$56,160                | \$57,650              | \$93,240         | \$57,240           | \$880,829  |
| <b>Outstanding at January 3, 1982:</b>                                |                 |                         |                       |                  |                    |  |
| Number of options without stock appreciation rights                   | 5,000           | 11,000                  | 16,000                | 11,000           | 9,000              | 94,442   |
| Number of options with stock appreciation rights                      | 6,000           | 2,000                   | 3,000                 | 2,000            | 2,000              | 31,000   |
| Potential or unrealized value(2)                                      | \$(72,250)      | \$44,010                | \$66,540              | \$44,010         | \$19,190           | \$228,278  |

(1) Option price equals the market value on date of grant.

(2) Represents the difference between option price and the market value of the stock options and stock appreciation rights at January 3, 1982.

## SECURITY OWNERSHIP

On March 23, 1982 the Directors and officers of the Company beneficially owned shares of the Company's Common Stock as follows:

| Name  | Shares<br>beneficially owned (1) | Shares<br>optioned | Percent<br>of class (2) |
|---|----------------------------------|--------------------|-------------------------|
| Roger S. Ahlbrandt                                | 100                              | —0—                | nil                     |
| Henry Curtis                                      | 1,000                            | —0—                | nil                     |
| Albert F. Duval                                   | 11,996                           | 11,000             | .3                      |
| Fred Herbolzheimer, Jr.                           | 13,833                           | 13,000             | .3                      |
| Bernard S. Kubala                                 | 100                              | —0—                | nil                     |
| William G. Kuhns                                  | 1,000                            | —0—                | nil                     |
| Donald S. Leslie, Jr.                             | 21,178                           | 19,000             | .5                      |
| Louis H. Roddis, Jr.                              | 500                              | —0—                | nil                     |
| Charles M. Williams                               | 200                              | —0—                | nil                     |
| Directors and Officers as a<br>group (19 persons) | 92,200                           | 125,442            | 2.62                    |

- (1) Includes shares allocated to the accounts of persons named under the Company's Thrift Plan and Stock Ownership Plan ("TRASOP"). Under the Thrift Plan and under the TRASOP, shares are purchased with Company contributions. These shares are allocated to participants' accounts (subject to forfeiture under certain conditions) and may be voted by the participants. Does not include shares subject to presently exercisable options, which are deemed to be beneficially owned and are shown in the next column.
- (2) The percent of class shown for each individual named or referred to in the table assumes exercise by him of all his options to acquire Common Stock, but assumes no such exercises by the other persons named or referred to in the table. Percentages less than .1% are shown as "nil".

To the best of the Company's knowledge, no person not named or referred to below was the beneficial owner of more than 5% of the Company's Common Stock at March 23, 1982.

Gulf & Western Industries, Inc., One Gulf & Western Plaza, New York, New York 10023 was the beneficial owner as of March 23, 1982 of 474,600 shares of Hammermill Common Stock or 5.73% of the shares then outstanding.

## PRINCIPAL ACCOUNTANT

The Company's principal accountant for the current year, as selected by the Board of Directors, is Price Waterhouse & Co.

Price Waterhouse & Co. has served as the Company's auditors for many years, although the Price Waterhouse personnel who work on the audit change at regular intervals in accordance with Price Waterhouse policy. Representatives of Price Waterhouse are expected to be present at the meeting with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

## OTHER MATTERS

At this time, the Board of Directors knows of no matters to come before the meeting except as set forth above. If any other matter properly comes before the meeting, however, it is the intention of the persons named in the enclosed form of proxy to vote said proxy in accordance with their best judgment.

### Proposals for 1982 Annual Meeting

Shareholder proposals for the 1982 annual meeting must be received at the principal executive offices of the Company, 1540 East Lake Road, Erie, Pennsylvania 16533, addressed to the attention of the Secretary, no later than January 10, 1983 for inclusion in the 1983 proxy statement and form of proxy.

By the Order of the Board of Directors  
R. J. Kilgore, *Secretary*

Erie, Pennsylvania  
April 2, 1982